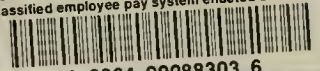


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CLASSIFIED EMPLOYEE PAY SYSTEM ENACTED BY THE 52ND LEGISLATURE

Background

In 1989, the 51st Legislature recognized problems with the statewide pay system. It set up a State Employee Compensation Committee to study and report on employee pay. This Committee studied state pay for 18 months and recommended to the Governor and the 52nd Legislature: that state employee pay be based on a market philosophy, and that the step matrix be replaced with an open range structure.

Throughout the 1991 session, the 52nd Legislature wrestled with employee pay. Two major policy concerns surfaced: 1) giving employees in the lower grades a sizeable raise; and 2) having professional & technical salaries competitive enough with the market to attract and keep employees. In the end, the Legislature and the Governor adopted much of what the Committee recommended and attempted to address both major policy concerns.

When Does the New Plan Take Effect?

The new pay plan becomes effective the first complete pay period in July, which begins July 13. Employees will see the increase in their August 7 pay checks. The state benefits contribution increases and the new dependent premium rates will also be reflected in the August 7 paycheck.

Summary of the Pay System Adopted

The legislature adopted a new pay plan that has three parts: a philosophy, a new structure, and a formula for individual pay raises.

1. Market Philosophy - The legislature adopted a statement of intent for the state's pay system which says: "In order to recruit and retain competent and qualified public employees to perform required services for the state, it is the intent of the legislature to provide for a state employee compensation system based on the prevailing compensation practices found in relevant public sector and private sector labor markets."
2. Open Range Structure - An "open range" structure provides a salary range for each of the 25 job classification grades. The range sets the limits for pay in each grade with an entry salary, a market salary and a maximum salary. No one in a job assigned to a particular grade is paid less than entry salary or more than maximum salary listed for that grade. The legislature prescribes a formula for how people's salaries are adjusted within the range. This open range structure replaces the "step" structure which was abandoned in practice in 1985, but has remained in the law. There are no more steps.
3. Pay Raises - All employees will get an Across-the-Board Raise each year (60 cents/hour in FY92 and 45 cents/hour phased in during FY93). Additionally, employees will receive a Progression Raise if their salary after the Across-the-Board Raise is below the Market Salary for their grade level (1/8 of one percent for each full percent their salary falls below Market Salary).

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Some Key Definitions

BASE SALARY - means the amount of salary an employee is paid which does not include benefits, longevity pay and state contributions to

retirement, social security, worker's compensation and unemployment insurance.

ENTRY SALARY - means the lowest salary or bottom of the salary range assigned to each grade where employees new to state government are hired.

MARKET SALARY - means the reference point of the market-based pay plan. It is approximately midpoint between the Entry Salary and the Maximum Salary for each grade. The Market Salary is based on the average pay of other employers for similar work as determined by the biennial salary survey.

MAXIMUM SALARY - means the highest salary available or the top of the salary range assigned to each grade. The Maximum Salary is equal to the Market Salary plus an amount equal to the percent difference between the Entry Salary and the Market Salary.

MARKET RATIO - means a ratio which identifies the employee salary as a percent of the Market Salary assigned to each grade. An employee's Market Ratio of 91.2 means that employee's salary is 91.2% of the Market Salary for the assigned grade. A Market Ratio is determined by dividing the base salary by the Market Salary for the assigned grade rounded to the nearest tenth of one percent.

How the New Pay System Works

How the Market and Market Salary are Determined

Every two years the Department of Administration conducts a salary and benefits survey of other employers in our region.

Employers who are likely to compete with the state for workers are chosen for the survey. Depending on the job, employers who are picked for the survey include other Montana public and private employers, and five other state governments (South Dakota, North Dakota, Wyoming,

Idaho, and Washington). The salaries they pay give us an average salary (the Market Salary) for each of the state's 25 pay grades.

How the Open Ranges Work

The new Open Range structure is shown below. It has an Entry Salary for new employees and a Market Salary. The Market Salary is the average salary which other employers pay. It is also the approximate midpoint of the salary range for each grade.

New employees are hired at the Entry Salary. The state's goal is to move employees to the Market Salary over time. Currently, about half of the state's employees are being paid around the Entry Salary. So initially the cost of this goal will be very high.

OPEN RANGE HOURLY RATES

Grade	FY 92		FY 93	
	Entry	Market	Entry	Market
1	4.051	4.766	4.173	4.909
2	4.364	5.146	4.495	5.300
3	4.700	5.556	4.841	5.723
4	5.065	6.002	5.217	6.182
5	5.474	6.501	5.638	6.696
6	5.915	7.042	6.092	7.253
7	6.389	7.624	6.581	7.853
8	6.925	8.284	7.133	8.532
9	7.498	8.991	7.723	9.261
10	8.133	9.775	8.377	10.068
11	8.824	10.631	9.088	10.950
12	9.589	11.582	9.877	11.929
13	10.420	12.615	10.733	12.994
14	11.340	13.763	11.680	14.175
15	12.353	15.028	12.724	15.479
16	13.483	16.442	13.887	16.936
17	14.743	18.023	15.185	18.564
18	16.132	19.770	16.616	20.363
19	17.689	21.731	18.220	22.383
20	19.426	23.924	20.009	24.641
21	21.356	26.366	21.997	27.157
22	23.513	29.100	24.218	29.973
23	25.945	32.189	26.723	33.155
24	28.675	35.666	29.536	36.736
25	31.697	39.522	32.648	40.708

How Raises Are Determined

1. Across-the-Board Raise - All employees will receive the same flat dollar amount.

- * In FY92 all employees will receive 60 cents per hour starting the first full pay period in July 1991 (beginning July 13).

- * In FY93 all employees will receive 45 cents per hour. Twenty-five cents per hour will be added the first full pay period in July 1992 (beginning July 4) and 20 cents per hour will be added the first full pay period in January 1993 (beginning January 2).

2. Progression Raise - Employees will receive a progression raise if their base salary--after adding the Across-the-Board Raise-- falls short of the Market Salary for their grade. The Progression Raise works much like the steps in the old pay plan to move employees through the pay range for their grade. It differs from steps in that the amount of the progression raise may vary from year to year depending on available funding. It also varies from employee to employee depending on how far an employee's salary is below market salaries for the assigned grade. For each full percent an employee's base salary is below the Market Salary the state will add an increase of 1/8 of one percent (.125%).

Ninety-three percent of state employees will get a progression raise, because most employees are now paid closer to Entry Salaries than to Market Salaries.

3. Longevity - The longevity reward is essentially the same amount employees receive now. But instead of being based on the difference between steps, it is an added 9/10 of one percent (.9%) of salary or no less than \$10 per month for every 5 years of service.

FY92 Example

This example assumes a grade 10 step 3 base salary.

STEP 1: Add your Across-the-Board raise to your current FY91 base salary.

Your FY91 Base Salary	\$ 8.213/hr.
Across-the-Board Raise	+ .60

New Salary	\$ 8.813/hr.
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STEP 2: Figure how far your new salary is below the market salary for your grade. Divide your new salary by the amount in the "Market Salary" column for your grade and round to the nearest tenth of one percent.

<u>Your New Salary</u>	<u>\$8.813</u>	=	.902 or 90.2%
Market Salary	\$9.775		

Your new salary is 90.2% of the Market Salary or 9 full percentage points below the Market Salary.

(100% - 90.2% = 9.8%)
or 9 full percentage points

STEP 3: Calculate your progression raise. An employee gets 1/8 of one percent (.125%) for each full percent the new salary is below the Market Salary for the assigned grade. In this example that's 9 full percentage points.

9 X .00125 = .01125 (1.125%)

Multiply this percent by your new salary to figure your Progression Raise.

.01125 X \$8.813 = \$.099

STEP 4: Figure your new FY92 salary.

\$ 8.213	Your Current Base Salary
+ .60	Your Across-the-Board Raise
+ .099	Your Progression Raise

\$ 8.912/hr. Your FY92 Base Salary

This employee's new FY92 base salary will be \$8.912/hr. In July 1992, this new number will be used to calculate the 1993 increase.

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Raises Cost

The total FY91 budget for state pay is about \$427 million (for one year). A 60 cent Across-the-Board raise costs about \$18 million for one year or \$36 million for the two years of the biennium. A 45 cent Across-the-Board Raise phased in the second year costs about \$11 million. This will bring the total new funding required for the Across-the-Board Raises each year to \$47 million for the biennium. With current employees' salaries where they are, the 1/8 of one percent Progression Raise will cost another \$14 million. The total cost of both raises and benefit increases is \$68 million new funding. Added to the current cost, state pay will cost \$922 million over the next biennium.

State Share Benefit Increase

In addition to salary increases, the state will also increase its contribution to employee medical/dental/life insurance benefits by \$20.00 per month for each year of the biennium. Beginning in FY 1992, the state will contribute \$170 per month toward state group benefits and beginning FY 1993, the state will contribute \$190 per month. This increase results in approximately \$1.00/hour paid by the state toward benefits for each employee. Changes in the group benefits plan have been described in a separate flier already distributed to employees with the annual benefits statement.

Exempt and Official Salaries

Exempt employees and official employees are not included in the new pay plan. Like all employees, they will receive the state benefit contribution increase and receive longevity. The

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